Forum: Economic and Social Council (ECOSOC)

Issue: Measures to reduce the global negative economic implications of the war in Ukraine

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Introduction

The world today as we know it has faced many different crises. Prior to the Ukrainian War, the world faced a global economic crisis due to the COVID-19 pandemic. The countries of the world were already keeping measures in place to help the global economy and reverse the many losses that were being faced due to the pandemic.. The start of the war in the Ukraine has set back the global response to the pandemic and instead many heads were turned towards the situation of the war. There are many countries that are set to face a lot of economic damage; countries in Eastern Europe, Central Asia, and the South Caucasus have faced losses due to their trade migration and financial ties with Russia and the Ukraine. Since many countries in the continent relied on natural gas and oil from Russia, European economies have suffered, and will continue to suffer significant losses. Even though the limitations have been restricted, the higher food and energy prices are leading to inflation pressures and tightening monetary policies around the world. Measures specific to this crisis need to be in place in countries around the world to reduce the negative global economic implications of the war.

Definition of Key Terms

Inflation

The term "inflation" refers to a rise in prices, which can be translated to a gradual decline in a person's ability to purchase goods and services. The average price increase of a selected basket of goods and services over some time can show the rate at which purchasing power decreases. As a result of price increase, which is often expressed as a percentage, currency effectively costs less to buy.

Monetary Policy

Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.

Humanitarian Relief

Humanitarian aid is assistance that's used to relieve suffering during emergency situations. This is different from development aid, which is assistance that goes to addressing ongoing issues that contribute to human suffering.

Hostilities

Hostility is unfriendly or aggressive behavior towards people or ideas.

Exacerbate

To make it more violent, bitter, or severe.

Fiscal

Relating to taxation, public revenues, or public debt.

Stagflation

Stagflation is a period when slow economic growth and joblessness coincide with rising inflation.

TTF Gas

TTF stands for Title Transfer Facility, and it is an establishment in the Netherlands for virtual trading of futures, physical and exchange trades of natural gas.

Maritime Freight Companies

Maritime transport refers to a means of transport where goods (or people) are transported via sea routes. In some cases, maritime transport can encompass pre- and post-shipping activities. For centuries, mankind has used waterways to transport merchandise and people.

Petrochemicals

Chemicals obtained from petroleum and natural gas.

COFACE

Country risk classification provided by the French company COFACE (Compagnie Française d'Assurance pour le Commerce Extérieur), world leader in export insurance, is very useful to know the country risk and the business climate in 160 countries.

Remittances

Money sent from one party to another is called a remittance. Remittance generally refers to any payment of an invoice or bill.

Debt Distress

Below investment-grade debt, distressed debt is a component of the leveraged and high-yield loan market. Bank debt, bonds, trade claims, and common and preferred shares are the most commonly used distressed debt securities.

Commodity Markets

Buying, selling, or trading a raw product like coffee, gold, or oil is what a commodity market is all about. There are soft commodities, such as livestock or agricultural products, and hard commodities, which typically include natural resources.

Account Surplus

A country has more exports and incoming payments than imports and outgoing payments to other countries when it has a current account surplus. Because it increases a nation's reserves, the current account surplus is generally regarded as positive.

Key Issues

Refugees and remittances

Major refugee crisis

Over 7 million people have been displaced within Ukraine, while UNHCR is reporting the number of refugees (to neighboring countries) at 4.7 million as of the 15th of April (IOM 2022; UNHRC Data Portal 2022). A large share of refugees are women and children. Of the estimated 7.5 million children in Ukraine, 4.3 million (57 percent of the total) have been displaced: 1.8 million (24% of total) are estimated to have fled to neighboring countries as refugees, and another 2.5 million (33 percent of total) are internally displaced (IOM 2022; UNHRC 2022).

The wave of refugees from Ukraine will affect Central European economies

The wave of refugees will test Central European countries' capacity to mobilize aid to meet immediate needs. The health, education, and social protection systems in some host countries already had challenges to deliver services to more remote areas and to include marginalized groups. This could impact host countries' abilities to provide basic services and impact refugees. Support will be needed for both refugees and host communities to avoid overwhelming local public services.

A recession in Russia will affect Central Asian economies

In addition, hundreds of thousands of Russians are reported to have fled their country and it is likely that many migrant workers in Russia will be affected by income losses or forced to return home. This will impose economic hardships at the household level but also severely impact reserves of some of the Central Asian countries heavily dependent on remittances. The war is magnifying other vulnerabilities, including high debt distress risks in the Kyrgyz Republic and Tajikistan. Both countries are expected to experience a contraction in output this year, wider deficits, and sharp exchange rate devaluation.

The South Caucasus will also face spillovers from the war

The South Caucasus region will be hard hit because of its strong economic links with Russia. Armenia and Georgia rely on Russia as an important export destination and source of tourism receipts and remittances. The South Caucasus depends heavily on imported wheat from Russia and has been adversely affected by Russia's announced restrictions for various agricultural products. Some of these drags could be offset by the influx of Russian migrants, particularly of educated and skilled workers, which could have positive effects in the near term on domestic demand and in the medium to long term on the labor supply.

The consequence of oil shut off in Russia

JP Morgan had previously stated that "the consequences of a complete shut-off of Russia's 4.3 (million barrels per day) of oil exports to the US and Europe would be dramatic, to the extent that this disengagement gathers steam, the size and length of the disruption - and this the shock to global growth - will build." The Russian economy is heavily relied upon all over the world. The EU sends $450 million a day to Russia for oil and $400 million per day for natural gas, according to calculations by analysts at the Bruegel think tank in Brussels. Europe is the biggest purchaser of Russian crude, receiving 138 million tons in 2020 out of Russia's total exports of 260 million tons - or

53%, according to the BP Statistical Review of World Energy. Europe, which imports almost all of its crude, gets a quarter of its needs from Russia. Europe imported 3.8 million barrels a day from Russia before the war. In theory, European customers could replace those barrels from suppliers in the Middle East, whose exports now mostly go to Asia, as well as from the United States, Latin America and Africa. Meanwhile, cheaper Russian oil could take the place of the Middle East shipments to Asia. But it would take time to make that adjustment. New supplies would have to be found elsewhere. Several large refineries in central and Eastern Europe rely on oil from a Soviet-era pipeline and would have to find another way of getting oil to make gasoline and other products.

The conflict squeezing energy and commodity markets further

Russia is the world's 3rd oil producer, the 2nd natural gas producer and is amongst the top 5 producers of steel, nickel, and aluminum. It is also the largest wheat exporter in the world (almost 20% of global trade). On its side, Ukraine is a key producer of corn (6th largest), what (7th), sunflowers (1st), and is amongst the top ten producers for sugar beet, barley, soya and rapeseed.

On the day the invasion began, financial markets around the world fell sharply, and the prices of oil, natural gas, metals and food commodities surged. Following the latest developments, Brent oil prices breached USD 100 per barrel for the first time since 2014, while Europe's TTF gas prices surged at a record EUR 192 on 4 March.

While high commodity prices were one of the risks already identified as potentially disruptive to the recovery, the escalation of the conflict increases the likelihood that commodity prices will remain higher for much longer. In turn, it intensifies the threat of long-lasting high inflation, thereby increasing the risks of stagflation and social unrest in both advanced and emerging countries.

Automotive, transport, chemicals being vulnerable sectors

The crisis is obviously strongly impacting an already strained automotive sector due to various shortages and high commodity and ray material prices: metals, semiconductors, cobalt, lithium, magnesium. Ukraine automotive factories supply major carmakers in Western Europe: some announced the stoppage of factories in Europe while other plants around the world are already planning outages due to chip shortages.

Airlines and maritime freight companies will also suffer from higher fuel prices, airplanes being the most at risk. First, fuel is estimated to account for about a third of their total costs. Second, European countries, the US and Canada have forbidden the access to their territories to Russian airlines and in turn, Russia has banned European and Canadian aircrafts from its airspace. This means higher costs since airlines will have to take longer routes. Eventually, airlines have little room for rising costs, as they continue to face lower revenues due to the impact of the pandemic.

Rail freight will also be impacted: European companies are forbidden to do business with Russian Railways which will likely disrupt freight activity between Asia and Europe, transiting through Russia. It is also expected for feedstocks for petrochemicals to be more expensive, and the soaring prices of natural gas to impact the fertilizer markets, hence the whole agricultural food industry.

Deep recessions expected for the Russian economy

The Russian economy will be in great difficulty in 2022, falling into a deep recession. Coface’s updated GDP forecast for 2022 stands at -7.5% after the recovery experienced last year. This has lead us to downgrade the country's risk assessment from B (fairly high) to D (very high).

Sanctions notably target major Russian banks, the Russian central banks, the Russian sovereign debt, selected Russian public officials & oligarchs, and the export control of high-tech components to Russia. These measures put considerable downward pressure on the Russian ruble, which has already plummeted, and will drive a surge in consumer price inflation.

Russia has built up relatively strong financials: a low level of public external debt, a recurrent current account surplus, as well as substantial foreign reserves (app. USD 640 bn). However, the freeze imposed by western depositary countries on the latter prevents the Russian central bank from deploying them and reduces the effectiveness of the Russian response.

The Russian economy could benefit from higher prices for commodities, especially for its energy exports. However, EU countries announced their intention to limit their imports from Russia. In the industrial sector, restricted access to Western-produced semiconductors, computers, telecommunications, automation, and information security equipment will be harmful, given the importance of these inputs in the Russian mining and manufacturing sectors.

European economies are the most at risk

Because of its dependence on Russian oil & natural gas, Europe appears to be the region most exposed to the consequences of this conflict. Replacing all Russian natural gas supply to Europe is impossible in the short to medium run and current price levels will have a significant effect on inflation. At the time of writing, with the barrel of Brent trading above 125$ and natural gas futures suggesting prices durably above 150€/Mwh, COFACE estimates at least 1.5 percentage point of additional inflation in 2022 which would erode household consumption and, together with the expected fall in business investment and exports, lower GDP growth by approximately one percentage point.

While Germany, Italy or some countries in the Central and Eastern European region are more dependent on Russian natural gas, the trade interdependence of Eurozone countries suggests a general slowdown.

On top of that, we estimate that a complete cut of Russian natural gas flows to Europe would raise the cost to 4 percentage points in 2022, which would bring annual GDP growth close to zero, more probably in negative territory – depending on demand destruction management.

No region will be spared by imported inflation and global trade disruptions

In the rest of the world, the economic consequences will be felt mainly through the rise in commodity prices, which will fuel already existing inflationary pressures. As always when commodity prices soar, net importers of energy & food products will be particularly affected, with the specter of major supply disruptions in the event of an even greater escalation of the conflict. The drop in demand from Europe will also hamper global trade.

In Asia-Pacific, the impact will be felt almost immediately through higher import prices, particularly in energy prices, with many economies in the region being net energy importers, led by China, Japan, India, South Korea, Taiwan and Thailand.

As North American trade and financial links with Russia and Ukraine are fairly limited, the impact of the conflict will mainly be felt through the price channel and through the slowdown of European growth. Despite the prospect of slower economic growth and higher inflation, the recent geopolitical events are not expected to derail monetary policy in North America at this stage.

Major Countries Involved

Ukraine

The war has caused an enormous humanitarian crisis in Ukraine

Urban centers in many parts of the country have been badly damaged, maritime, road and rail transit have been severely disrupted, and vital economic and social service infrastructure including power generation, digital infrastructure, bridges, and ports has been destroyed or rendered unusable. As of the end of March, nearly 6

million Ukrainians had little or no access to safe water. About 12 million people are estimated to have been displaced as of midApril and a similar number of people—especially the elderly and infirm—urgently require humanitarian assistance (UNHCR 2022). The war is also substantially eroding human capital. It is likely to have a particularly acute impact on children by increasing malnutrition and stunting, reducing years of schooling, and worsening labor market outcomes (Akresh, Caruso, and Thirumurthy 2022; Acosta et al.
2020).

The war has caused an enormous humanitarian crisis in Ukraine

To support the economy and ease pressures on FX reserves, Ukraine imposed emergency financial measures (including capital controls and banking sector restrictions) and announced tax deferrals, while fully meeting domestic and external debt obligations. These measures have helped to prevent financial collapse. Economic activity in Ukraine has been rendered impossible in some areas, with the war destroying a critical amount of productive infrastructure and forcing businesses to close. Goods trade has come to a grinding halt, as damaged transit routes impede shipment by land while the loss of access to the Black Sea cuts off all seaborne trade, which accounts for half of Ukraine's exports. The war is expected to halve output in 2022, with GDP falling around 45 percent, according to the World Bank's recently released Europe and Central Asia Update. The forecast assumes the war continues for several more months but remains contained to the geographical areas where it is currently occurring.

Russia

The Russian economy is being tipped into a recession

High-frequency indicators point to a sharp decline in economic activity in March, with the composite PMI falling deep into contractionary territory as sanctions trigger a collapse in domestic demand. Inflation soared alongside the initial depreciation of the ruble and supply shortages, rising from 9.2 percent in February to 16.7 percent in

March. For this year as a whole, Russia's GDP is projected to contract by about 11 percent compared to previous projections for a 2.4 percent expansion. The withdrawal of many foreign enterprises from Russia and a sharply deteriorated outlook will dry up investment, while pressure on households from fast-rising prices and declining incomes will weigh heavily on consumption; this will only be partly offset by fiscal policy support. Import compression due to the plunge in demand and export bans to Russia will ameliorate external financing. Nonetheless, the disruption of imports has already interrupted domestic production, including in the automobile and aerospace sectors. Announced bans and reductions in purchases of Russian oil and gas are expected to lead to a moderate fall in shipments this year. Exports of key high-tech goods—including software and semiconductors—to Russia have been banned which will starve it of critical inputs and exacerbate supply chain disruptions in the country. The current package of sanctions will have a lasting negative effect on Russia by curtailing oil production due to the exit of foreign oil companies, fall in investment, and reduced access to foreign technology.

Saudi Arabia

The OPEC oil cartel led by Saudi Arabia - which sets production levels along with allied non-members like Russia - has made it clear it won't increase output to make up for any supply loss from Russia due to a boycott.

The United States

The United States placed sanctions in Russia ahead of the Ukraine war. "We're banning all imports of Russian oil and gas and energy," said Joe Biden, the President of the United States, in a White House briefing in March 2022, whilst acknowledging the reality of gas prices rising. The ban applied to imports of Russian oil, natural gas, and coal. It further prohibited new U.S. investments in Russia's energy sector. Americans were blocked from financing companies that make investments to produce energy in Russia.

Forecasters predict that the United States economy will grow more slowly with increased inflation due to the sanctions placed in Russia, whilst Russia experiences a sharp, double digit collapse. For this quarter and the following, inflation predictions are 1.7 and 1.6 percentage points higher respectively. By December 2022, the inflation was predicted to drop from 4.3% to 2.4%.

Energy costs skyrocketed in the country, and are still expected to rise steadily, but it is anticipated that most of the increase witnessed will subside within a few months. Vast amounts of cash, income, growth and wealth was available to the consumers at this time. Where the inflation the United States economy experienced is meaningful, the consumers were put at a disadvantage due to the high energy and service costs.

Republic of Tajikistan

Central Asian states, all of which were once Soviet republics, have special ties to Moscow and are regarded as traditional allies of the Russian Federation. In the face of worldwide outrage and condemnation, Tajikistan must urgently consider how to meet Russian expectations of support from Dushanbe in response to the invasion of Ukraine, another former Soviet republic.

Due to it being home to an estimated 7,000 Russian troops and receives Russian support in the form of security and economic assistance, Tajikistan faces a particularly challenging balancing act.Due to the country's intertwined economic, political, and security ties with Russia, Tajikistan and its ruling elites will suffer as a result of sanctions imposed by the United States and allies on Russia. The top echelon of the ruling elite will be forced to take whatever resources are left and force others out as a result of tightening economic conditions.In this scenario, the general public will receive less and less benefit, escalating discontent. The country may be able to get out of its current predicament with a robust internal process of political and economic reform and a foreign policy that emphasizes strengthening regional cooperation and economic integration.

Development of Issue/Timeline

Date	Event	Outcome
20/02/2014	Start of the War in Ukraine	The conflict causes significant disruption to the Ukrainian economy and negatively impacts its trade relations with other countries.
01/07/2014	International Sanctions imposed on Russia	The international sanctions imposed on Russia in response to its actions in Ukraine significantly impact the Russian economy, and have secondary effects on the global economy.
11/12/2015	Minsk Agreements signed	The agreements are signed between Ukraine, Russia, and separatist rebels in an effort to bring an end to the conflict and pave the way for a resolution to the crisis. However, the agreements are not fully implemented, and the conflict continues.

06/01/2016	International Aid to Ukraine	The international community provides economic and financial aid to Ukraine to support its economy and help it recover from the effects of the conflict.
10/06/2017	Reforms in Ukraine	The Ukrainian government implements reforms aimed at improving the business environment, reducing corruption, and boosting economic growth.
20/05/2019	Election of Volodymyr Zelensky as President of Ukraine	he election of Zelensky brings a new approach to the conflict, with a focus on finding a peaceful resolution to the crisis and improving the economic situation in Ukraine.

Previous & Possible Attempts to Solve the Issue

The war requires a coordinated response at the global, regional, and national levels.

The global community needs to support humanitarian relief efforts and share the burden of sustaining refugees. When hostilities subside, a large-scale mobilization of resources will be needed to reconstruct Ukraine. At a time when countries will be tempted to implement trade restrictions and price controls and intervene with subsidies and similar measures, it is critical to construct a coordinated response to avoid counterproductive policies. Otherwise, individual countries' decisions could trigger a race to the bottom, delay economic recovery even more and exacerbate fiscal imbalances, inflation, and food insecurity. At the national level, policy makers need to avoid introducing distortive policies in response to surging commodity prices, opting instead to offer targeted support to vulnerable households and expanding social safety nets. Pressures on fiscal space and increasing vulnerabilities also call for protecting essential basic services like education and health, especially for the poor and vulnerable. In addition, monetary policy efforts can focus on moderating inflation expectations by avoiding surprise announcements, improving communication, and strengthening commitments to a credible monetary framework. With the disruption in oil, gas, and coal markets, measures to increase energy efficiency and reduce dependence on fossil fuels have become even more pressing.

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